

**Creative Montessori Academy**

**Southgate, Michigan**

**Audited Financial Statements**

**June 30, 2006**

## C O N T E N T S

<b>Basic Financial Statements</b>	<b><u>Page</u></b>
Independent Auditors Report	i - ii
Management's Discussion and Analysis	iii - ix
Basic Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Statement of Changes to Net Assets	3
Combined Balance Sheet - Governmental Funds	4
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	5
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	7
Notes to Financial Statements	8 - 15
<b>Supplemental Information</b>	
Independent Auditors Report on Supplemental Information	16
Budgetary Comparison Schedule - Governmental Funds	17
Schedule of Revenues - Governmental Funds	18
Schedule of Expenditures - Governmental Funds	19 - 22
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23 - 24

David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Board of Directors of Creative Montessori Academy**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Creative Montessori Academy, as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Creative Montessori Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Creative Montessori Academy as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Creative Montessori Academy's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006 on our consideration of Creative Montessori Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

  
Croskey, Lanni & Company, P.C.

September 15, 2006  
Rochester, Michigan

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Creative Montessori Academy's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

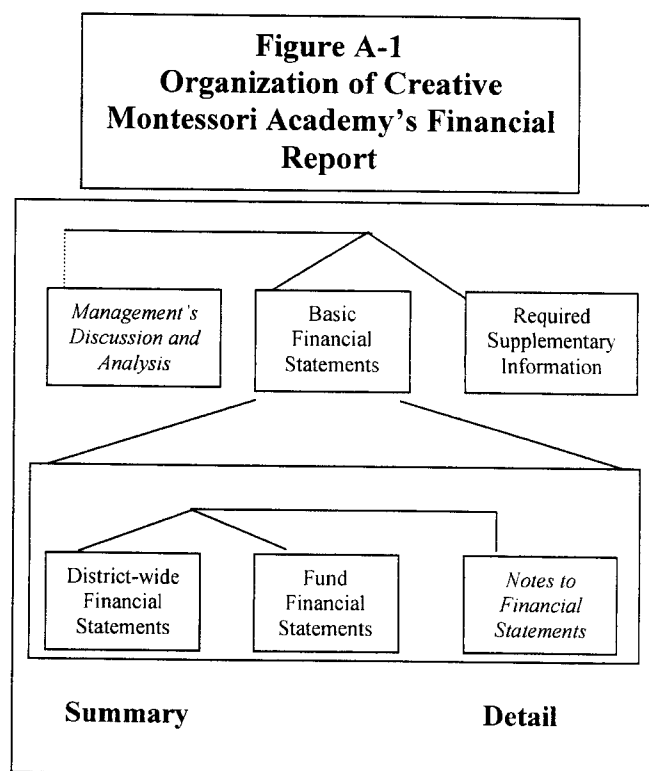
### Financial Highlights

- The Academy had an increase in the general fund balance of \$484,987. This gives the Academy a general fund balance of \$1,166,437.
- The Academy retired \$3,536 in long term debt.
- The Academy invested \$48,374 in capital assets during the year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview

**Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets  * Statement of activities	* Balance sheet  * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

## **Academy-Wide Statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities – The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or show that it is properly using certain revenues (like school lunch).

The Academy has only governmental funds - most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

## **Financial Analysis of the Academy as a Whole**

Net assets - the Academy's combined net assets of \$1,331,477 improved by \$547,229 during the year. See Figures A-3 and A-4.

The total revenues increased by 18% to \$4,808,495. State aid foundation allowance included in revenue from state sources accounts for 89% of the Academy's revenue. The blended enrollment increased 57 students in 2006 to 597 students. This resulted in an increase in budgeted state foundation allowance payments of approximately \$409,000.

The total cost of instruction increased by 14% to \$2,272,741. Total support services increased by 6% to \$1,837,352. Both were due to the 11% increases in enrollment.

## **Financial Analysis of the Academy's Funds**

The financial operation of the Academy is considered stable. The general fund balance at June 30, 2006 is \$1,166,437. There was a 17% increase in general fund revenue and an 11% increase in expenditures. Both were due to the 11% increase in enrollment.

The general fund transferred \$3,646 to the athletic fund during the year. The excess of revenues over expenditures (prior to transfer from the general fund) in the special revenue fund was \$26,911 compared to \$16,218 in 2005.

## **General Fund Budgetary Highlights**

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated expenditures and other financing sources or uses would exceed revenues by \$74,522, the actual results for the year showed an increase in fund balance of \$488,633.

Actual revenues were \$152,604 more than budgeted primarily due to receipt of additional local funds.

Actual expenditures were \$410,551 under budget primarily due to under spending in several areas.



## Capital Asset and Debt Administration

### Capital Assets

As of June 30, 2006, the Academy had invested \$300,246 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$14,958 from the beginning of the year. Total depreciation expense for the year was \$63,332. More detailed information about capital assets can be found in Note 7 to the financial statements.

The Academy's capital assets are as follows:

**Figure A-5**  
**Creative Montessori Academy's Capital Assets**

	Balance June 30, 2006	Balance June 30, 2005
CIP	\$ -	\$ 17,000
Computers	53,916	30,864
Furniture and fixtures	26,857	26,857
Leasehold improvements	54,217	11,895
Total cost	134,990	86,616
Less accumulated depreciation	<u>39,221</u>	<u>18,996</u>
Net book value	<u>\$ 95,769</u>	<u>\$ 67,620</u>

### Long-Term Debt

The Academy repaid principal on long-term capital leases of \$3,536 during 2006. See Note 8 for more information.

### Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

The foundation allowance has increased \$210 per student to \$7,385, an increase of 2.9%. Total general fund revenues for 2006-2007 were initially budgeted at \$4,648,853 reflecting a slight increase in state aid. Total expenses for 2006-2007 were estimated at \$4,634,397. The Academy continues to place emphasis upon enrollment increases through new working strategies. Enrollment growth will be imperative in continuing financial growth, allowing for facility expansion, and offering additional programmatic opportunities.

Figure A-3  
Creative Montessori Academy's Net Assets

	<u>2006</u>	<u>2005</u>
Current assets	\$ 1,721,469	\$ 1,246,270
Capital assets, net	<u>95,769</u>	<u>67,620</u>
Total assets	1,817,238	1,313,890
Current liabilities	485,761	526,106
Long-term liabilities	<u>-</u>	<u>3,536</u>
Total liabilities	485,761	529,642
Net assets(deficit):		
Invested in capital assets, net of related debt	95,769	67,620
Unrestricted	<u>1,235,708</u>	<u>716,628</u>
Total net assets	<u><u>\$ 1,331,477</u></u>	<u><u>\$ 784,248</u></u>

Figure A-4  
Changes in Creative Montessori Academy's Net Assets

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	<u>\$ 312,274</u>	<u>\$ 250,624</u>
Charges for service	<u>239,078</u>	<u>45,543</u>
General revenues:		
State aid - unrestricted	4,257,143	3,737,121
Other	<u>48,000</u>	<u>48,000</u>
Total general revenues	<u>4,257,143</u>	<u>3,785,121</u>
Total revenues	<u>4,808,495</u>	<u>4,081,288</u>
Expenses:		
Instruction	2,272,741	1,985,929
Support services	1,837,352	1,730,504
Community services	22,507	
Food services	76,011	51,620
Athletics	5,278	2,573
Interest and fees on long-term debt	27,151	10,679
Unallocated depreciation	<u>20,226</u>	<u>59,392</u>
Total expenses	<u>4,261,266</u>	<u>3,840,697</u>
Change in net assets	<u><u>\$ 547,229</u></u>	<u><u>\$ 240,591</u></u>

## **Contacting the Academy's Financial Management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

# CREATIVE MONTESSORI ACADEMY

## STATEMENT OF NET ASSETS JUNE 30, 2006

### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 545,556
Due from other governmental units	846,173
Prepaid expenses	<u>329,740</u>
Total current assets	1,721,469

#### Property, Furniture and Equipment

At cost less accumulated depreciation of \$39,221	<u>95,769</u>
Total assets	<u><u>\$ 1,817,238</u></u>

### LIABILITIES AND NET ASSETS

#### Current Liabilities

Accounts payable	\$ 13,185
Notes payable	82,325
Other accrued expenses	<u>390,251</u>
Total current liabilities	485,761

#### Net Assets

Invested in capital assets, net of related debt	95,769
Unrestricted	<u>1,235,708</u>
Total net assets	<u>1,331,477</u>
Total liabilities and net assets	<u><u>\$ 1,817,238</u></u>

See accompanying notes to financial statements



# CREATIVE MONTESSORI ACADEMY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 1,719,602	\$ 172,173	\$ 169,443	\$ (1,377,986)
Middle school	360,979	-	-	(360,979)
Preschool	43,089	-	-	(43,089)
Special education	96,168	-	33,813	(62,355)
Compensatory education	52,903	-	52,903	-
Student services	86,214	-	-	(86,214)
Staff support	170,969	-	14,820	(156,149)
General administration	12,130	-	-	(12,130)
Executive administration	567,894	-	-	(567,894)
Building administration	263,861	-	-	(263,861)
Lunch program	76,011	61,926	41,295	27,210
Athletic program	5,278	4,979	-	(299)
Business support services	359	-	-	(359)
Operations and maintenance	732,744	-	-	(732,744)
Central support	3,181	-	-	(3,181)
Community services	22,507	-	-	(22,507)
Depreciation	20,226	-	-	(20,226)
Interest	27,151	-	-	(27,151)
Total primary government	<u>\$ 4,261,266</u>	<u>\$ 239,078</u>	<u>\$ 312,274</u>	<u>(3,709,914)</u>
<b>General Purpose Revenues:</b>				
State school aid - unrestricted				<u>4,257,143</u>
Excess of expenditures over revenues				547,229
Net assets - July 1, 2005				<u>784,248</u>
Net assets - June 30, 2006				<u>\$ 1,331,477</u>

See accompanying notes to financial statements

# CREATIVE MONTESSORI ACADEMY

## STATEMENT OF CHANGES TO NET ASSETS FOR THE YEAR ENDED JUNE 30, 2006 See Independent Auditor's Report

	<u>Net Assets</u>
<b>Balance - June 30, 2005</b>	\$ 1,031,832
Prior period adjustment (Note 13)	<u>(247,584)</u>
<b>June 30, 2005, as adjusted</b>	784,248
Excess of revenues over expenditures	<u>547,229</u>
<b>Balance - June 20, 2006</b>	<u><u>\$ 1,331,477</u></u>

See accompanying notes to financial statements

# CREATIVE MONTESSORI ACADEMY

## BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2006

### ASSETS

	<u>General</u>	<u>School Service</u>
Cash and cash equivalents	\$ 483,475	\$ 62,081
Due from general fund	-	1,948
Due from other governmental units	840,931	5,242
Prepaid items	329,740	-
	<hr/>	<hr/>
Total assets	<u>\$ 1,654,146</u>	<u>\$ 69,271</u>

### LIABILITIES AND FUND BALANCES

#### Liabilities

Accounts payable	\$ 13,185	\$ -
Notes payable	82,325	-
Other accrued expenses	390,251	-
Due to school service fund	1,948	-
	<hr/>	<hr/>
Total liabilities	487,709	-

#### Fund Balances

Unreserved:		
Undesignated	1,166,437	69,271
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,654,146</u>	<u>\$ 69,271</u>

See accompanying notes to financial statements

**CREATIVE MONTESSORI ACADEMY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	\$ 1,235,708
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$134,990 and the accumulated depreciation is \$39,221.	<u>95,769</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 1,331,477</u></u>

See accompanying notes to financial statements



# CREATIVE MONTESSORI ACADEMY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>
<b>Revenues</b>		
Local sources	\$ 172,173	\$ 66,905
State sources	4,398,318	-
Federal sources	129,804	41,295
Total governmental fund revenues	4,700,295	108,200
<b>Expenditures</b>		
Elementary school	1,719,602	-
Middle school	360,979	-
Preschool	43,089	-
Special education	96,168	-
Compensatory education	52,903	-
Student services	86,214	-
Staff support	170,969	-
General administration	12,130	-
Executive administration	567,894	-
Building administration	263,861	-
Lunch program	-	76,011
Athletic program	-	5,278
Business support services	27,476	-
Operation and maintenance	732,744	-
Central support	3,181	-
Community service	22,507	-
Capital outlay	48,375	-
Debt principal and interest	3,570	-
Total governmental fund expenditures	4,211,662	81,289
Deficiency of revenues over expenditures	488,633	26,911
<b>Other Financing Sources (Uses)</b>		
Operating transfers in	-	3,646
Operating transfers out	(3,646)	-
Total other financing sources (uses)	(3,646)	3,646
Excess of revenues and other financing sources over expenditures and other (uses)	484,987	30,557
Fund balance - July 1, 2005	681,450	38,714
Fund balance - June 30, 2006	<u>\$ 1,166,437</u>	<u>\$ 69,271</u>

See accompanying notes to financial statements

## CREATIVE MONTESSORI ACADEMY

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 515,544</b>
---	-------------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 48,375	
Depreciation expense	<u>(20,226)</u>	28,149

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of loan principal	<u>3,536</u>
-----------------------------	--------------

<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 547,229</u></b>
--	--------------------------

See accompanying notes to financial statements

**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies**

The accounting policies of Creative Montessori Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

**Reporting Entity**

Creative Montessori Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 5, 1996, and began operation in July 2003.

In July 2003, the Academy entered into a five-year agreement with Choice Schools Associates, LLC. Under the terms of this agreement, Choice Schools Associates, LLC provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay Choice Schools Associates, LLC ten percent of its state school aid revenue. The total paid for these services amounted to approximately \$440,000 for the year ended June 30, 2006.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

**Fund Financial Statements**

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has elected to designate all of its funds as major.

**Basis of Presentation - Fund Accounting**

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into governmental types as follows:

**CREATIVE MONTESSORI ACADEMY**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Governmental Funds**

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

**General Fund** - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**School Service Fund** - The school service fund is used to account for the food service program and athletic program operations. The school service fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the school service fund will be covered by an operating transfer from the general fund. The school service fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and so recognized as revenue in accordance with state law. A major portion of the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.

**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Government Wide Financial Statements**

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally, imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition.

**Receivables**

Receivables at June 30, 2006 consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2006 and are considered current for the purposes of these basic financial statements.

**Prepaid Assets**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**CREATIVE MONTESSORI ACADEMY**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	5 - 15 years
Computers and software	3 - 10 years

**Intangible Assets**

Loan issuance costs are amortized on the straight-line method over its estimated useful life of twenty years.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance of amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - Stewardship, Compliance and Accountability**

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law. The Academy is required by law to adopt a general fund budget. The Academy originally adopted only a general fund budget, which includes traditional debt service fund revenues and expenditures and school service fund revenue and expenditures. For the financial statement presentation these amounts are shown as a separate school service fund. During the year ended June 30, 2006 the budget was amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - all governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances. Budget overruns are as follows:

	<u>Budget</u>	<u>Actual</u>
<b>General Fund</b>		
Compensatory education	\$ 48,694	\$ 52,903
Executive administration	563,997	567,894
<b>School Service Fund</b>		
Lunch program	74,400	76,011
Athletic program	-	5,278

**NOTE 3 - Deposits and Investments**

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Depository Insurance Corporation up to \$100,000 per deposit account. The Academy's uninsured and uncollateralized cash balance as of June 30, 2006 amounted to \$428,433.

**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 4 - Due from other Governmental Units**

Amounts owed from governmental units consist of the following:

State aid	\$	794,070
Federal grants		46,861
Total	\$	<u>840,931</u>

**NOTE 5 - Note Payable**

The academy has obtained a business loan through a bank amounting to \$800,000. The loan was issued to provide the Academy with funds to finance school operations throughout the fiscal year. The loan is payable \$82,755 monthly, including interest at 6.26% through July 2006. Security for the loan is provided through future state school aid payments. The amount outstanding on this loan as of June 30, 2006 was \$82,325.

**NOTE 6 - Accrued Expenses**

Accrued expenses may be summarized as follows:

Management fee	\$	29,798
University oversight		23,231
Purchased services		337,222
Total accrued expenses	\$	<u>390,251</u>

**NOTE 7 - Capital Assets and Depreciation**

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions / Deletions</u>	<u>Balance June 30, 2006</u>
Construction in progress	\$ 17,000	\$ (17,000)	\$ -
Computers	30,864	23,052	53,916
Furniture and fixtures	26,857	-	26,857
Leasehold improvements	<u>11,895</u>	<u>42,322</u>	<u>54,217</u>
Total cost	86,616	48,374	134,990
Less accumulated depreciation	<u>18,996</u>	<u>20,225</u>	<u>39,221</u>
Undepreciated cost	<u>\$ 67,620</u>	<u>\$ 28,149</u>	<u>\$ 95,769</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.



## CREATIVE MONTESSORI ACADEMY

### NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

#### NOTE 8 - Long-Term Obligations Payable

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2006:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u> <u>and Payments</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Capital lease 1	\$ 3,536	\$ -	\$ 3,536	\$ -	\$ -
Totals	<u>\$ 3,536</u>	<u>\$ -</u>	<u>\$ 3,536</u>	<u>\$ -</u>	<u>\$ -</u>

Capital leases for equipment held at the beginning of the year were paid in full. The Academy had no long term debt at June 30, 2006.

#### NOTE 9 - Retirement Plan

All leased employees of the Academy are eligible to participate in a retirement plan established by Choice Schools Associates, LLC which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The Academy's contribution, under this plan, is a discretionary match of the employee's contribution, up to 5%. The Academy elected not to make a contribution for the year ended June 30, 2006.

#### NOTE 10 - Operating Lease

The Academy has entered into an operating lease with a third party for facilities. The lease term began on September 1, 2001 and terminates December 31, 2010 with an automatic five year renewal. The Academy is responsible for utilities, property taxes and repairs. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease term. Under the terms of the lease, payments may be prepaid without penalty in six-month increments at a discount rate of 4.5%. During the year ended June 30, 2006, the Academy took advantage of this discount. Lease payments are due in the amount of \$47,500 per month.

The total rent expense included in the determination of net assets for the year ended June 30, 2006 amounted to \$556,400.

Total minimum lease payments for facilities for the next four years are as follows:

2007	\$ 614,436
2008	614,436
2009	614,436
2010	307,218

**CREATIVE MONTESSORI ACADEMY**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 11 - Interfund Transfers**

During the normal course of the school year the Academy transferred amounts between its two major funds as follows:

	<u>General</u>	<u>School Service</u>
Transfer In	\$ -	\$ 3,646
Transfer Out	(3,646)	-

**NOTE 12 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

**NOTE 13 - Prior Period Adjustment**

Net assets as of June 30, 2005 have been restated to remove fixed assets that are not currently in the Academy's possession. This adjustment would have decreased 2005 and prior years earnings by \$247,584.

David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

**To the Board of Directors  
of Creative Montessori Academy**

We have audited the accompanying basic financial statements of Creative Montessori Academy for the year ended June 30, 2006. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Creative Montessori Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

  
Croskey, Lanni & Company, P.C.

September 15, 2006  
Rochester, Michigan

# CREATIVE MONTESSORI ACADEMY

## REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General Fund		
	Original Budget	Final Budget	Actual
<b>Revenues</b>			
Local sources	\$ 102,848	\$ 83,048	\$ 172,173
State sources	4,210,274	4,343,502	4,398,318
Federal sources	30,365	121,141	129,804
Total governmental fund revenues	4,343,487	4,547,691	4,700,295
<b>Expenditures</b>			
Elementary school	2,110,630	1,830,789	1,719,602
Middle school	-	383,538	360,979
Preschool	-	58,867	43,089
Special education	98,097	101,905	96,168
Compensatory education	36,219	48,697	52,903
Student services	84,360	87,260	86,214
Staff support	167,032	196,719	170,969
General administration	24,500	30,100	12,130
Executive administration	525,250	563,997	567,894
Building administration	319,286	338,890	263,861
Lunch program	-	-	-
Athletic program	-	-	-
Business support services	43,132	45,679	27,476
Operation and maintenance	754,125	801,077	732,744
Central support	16,500	13,000	3,181
Community service	1,500	41,320	22,507
Capital outlay	48,375	48,375	48,375
Debt principal and interest	1,250	27,000	3,570
Total governmental fund expenditures	4,230,256	4,617,213	4,211,662
Excess (deficiency) of revenues over expenditures	113,231	(69,522)	488,633
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	-	-	-
Operating transfers out	215,585	5,000	(3,646)
Total other financing sources (uses)	215,585	5,000	(3,646)
Excess of revenues and other financing sources over expenditures and other uses	(102,354)	(74,522)	484,987
Fund balance - July 1, 2005	525,879	681,450	681,450
Fund balance - June 30, 2006	\$ 423,525	\$ 606,928	\$ 1,166,437

See independent auditors report on supplemental information



**School Service Fund**

<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>
\$ 53,000	\$ 53,000	\$ 66,905
		-
36,500	36,500	41,295
89,500	89,500	108,200
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
74,400	74,400	76,011
-	-	5,278
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
74,400	74,400	81,289
15,100	15,100	26,911
-	-	3,646
-	-	-
-	-	3,646
15,100	15,100	30,557
8,878	8,878	38,714
\$ 23,978	\$ 23,978	\$ 69,271

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF REVENUES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>
<b>Local Sources</b>		
Food sales - students	\$ -	\$ 61,926
Program sales	136,812	-
Miscellaneous	<u>35,361</u>	<u>4,979</u>
Total local sources	172,173	66,905
<b>State Sources</b>		
State aid	4,257,143	-
Special education	101,426	-
At risk	<u>39,749</u>	<u>-</u>
Total state sources	4,398,318	-
<b>Federal Sources</b>		
National school lunch	-	41,295
Federal IDEA	89,863	-
Title I	32,614	-
Title II A	5,301	-
Title V	218	-
Title II D	608	-
Drug free schools grant	<u>1,200</u>	<u>-</u>
Total federal sources	<u>129,804</u>	<u>41,295</u>
Total governmental fund revenues	<u><u>\$ 4,700,295</u></u>	<u><u>\$ 108,200</u></u>

See independent auditor's report on supplemental information

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>
<b>Elementary School</b>		
Purchased services - salaries	\$ 1,187,070	\$ -
Purchased services - benefits	270,816	-
Teaching supplies and materials	117,505	-
Equipment supplies and materials	129,548	-
Miscellaneous	14,663	-
	<hr/>	<hr/>
Total elementary school	1,719,602	-
<b>Middle School</b>		
Purchased services - salaries	289,793	-
Purchased services - benefits	71,186	-
	<hr/>	<hr/>
Total middle school	360,979	-
<b>Preschool</b>		
Purchased services - salaries	35,553	-
Purchased services - benefits	7,536	-
	<hr/>	<hr/>
Total preschool	43,089	-
<b>Special Education</b>		
Purchased services - salaries	73,832	-
Purchased services - benefits	18,717	-
Miscellaneous	3,619	-
	<hr/>	<hr/>
Total special education	96,168	-
<b>Compensatory Education</b>		
Purchased services - salaries	40,513	-
Purchased services - benefits	9,227	-
Miscellaneous	3,163	-
	<hr/>	<hr/>
Total compensatory education	52,903	-

See independent auditor's report on supplemental information

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>
<b>Student Services</b>		
Purchased services - salaries	76,427	-
Purchased services - payroll taxes	9,520	-
Miscellaneous	267	-
	<hr/>	<hr/>
Total student services	86,214	-
 <b>Staff Support</b>		
Training and development	72,358	-
Educational media support	33,446	-
Technology	65,165	-
	<hr/>	<hr/>
Total staff support	170,969	-
 <b>General Administration</b>		
Legal services	5,030	-
Accounting services	7,100	-
	<hr/>	<hr/>
Total general administration	12,130	-
 <b>Executive Administration</b>		
University oversight	127,714	-
Management fees	440,040	-
Miscellaneous	140	-
	<hr/>	<hr/>
Total executive administration	567,894	-
 <b>Building Administration</b>		
Purchased services - salaries	199,880	-
Purchased services - benefits	40,890	-
Workshops and conferences	4,932	-
Dues and fees	654	-
Supplies and other	10,881	-
Miscellaneous	6,624	-
	<hr/>	<hr/>
Total building administration	263,861	-

See independent auditor's report on supplemental information



# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>
<b>Lunch Program</b>		
Contracted services	-	66,869
Equipment	-	6,438
Supplies	-	2,637
Miscellaneous	-	67
	<hr/>	<hr/>
Total lunch program	-	76,011
 <b>Athletic Program</b>		
Contracted services	-	4,051
Equipment	-	150
Supplies	-	197
Miscellaneous	-	880
	<hr/>	<hr/>
Total athletic program	-	5,278
 <b>Business Support Services</b>		
Interest	27,117	-
Bank fees	359	-
	<hr/>	<hr/>
Total business support services	27,476	-
 <b>Operation and Maintenance</b>		
Purchased services - salaries	55,714	-
Purchased services - benefits	11,517	-
Outside services	3,000	-
Utilities	8,432	-
Liability insurance	21,984	-
Repair and maintenance	59,481	-
Building rent	556,394	-
Other rentals	6,727	-
Supplies and miscellaneous	9,495	-
	<hr/>	<hr/>
Total operation and maintenance	732,744	-

See independent auditor's report on supplemental information

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>School Service</u>
<b>Central Support</b>	3,181	-
<b>Community Service</b>		
Purchased services - salaries	16,336	-
Purchased services - benefits	4,461	-
Supplies	<u>1,710</u>	<u>-</u>
Total community services	22,507	-
<b>Capital Outlay</b>		
Elementary school	23,052	-
Operation and maintenance	<u>25,323</u>	<u>-</u>
Total capital outlay	48,375	-
<b>Debt Principal and Interest</b>	<u>3,570</u>	<u>-</u>
Total governmental fund expenditures	<u>\$ 4,211,662</u>	<u>\$ 81,289</u>

See independent auditor's report on supplemental information

David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA

Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters in an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*

**To the Board of Directors  
of Creative Montessori Academy**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Creative Montessori Academy as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**


In planning and performing our audit, we considered Creative Montessori Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operating that we consider to be material weaknesses.

## Compliance

As part of obtaining reasonable assurance about whether Creative Montessori Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.

  
Croskey, Lanni & Company, P.C.

September 15, 2006  
Rochester, Michigan